Question Paper
Financial Accounting (CFA510) : April 2008

- **Answer all 70 questions.**
- **Marks are indicated against each question.**

Total Marks : 100

<Answer>

1. The system of recording accounting transactions based on duality concept is called

(a) Double account system
(b) Dual control system
(c) Double entry system
(d) Single entry system
(e) Multiple entry system.

(1 mark)

<Answer>

2. Which of the following is a liability of a firm?

(a) Total of discount column on the debit side of cash book
(b) Total of discount column on the credit side of cash book
(c) Debit balance of bank column of cash book
(d) Debit balance of cash column of cash book
(e) Credit balance of bank column of cash book.

(1 mark)

<Answer>

3. The periodical total of discount column on receipts side of a triple column cash book is posted to the

(a) Credit side of discount allowed account
(b) Credit side of discount received account
(c) Debit side of discount allowed account
(d) Debit side of discount received account
(e) Debit side of creditor's account.

(1 mark)

<Answer>

4. The total purchases of Linda Ltd., during the year 2007-08 was Rs.1,90,000. If the gross profit of Linda Ltd., was 20% on sales and closing stock was more than the opening stock by Rs.30,000, the gross profit earned by Linda Ltd., during the year 2007-08 was

(a) Rs.38,000
(b) Rs.50,000
(c) Rs.40,000
(d) Rs.32,000
(e) Rs.44,000.

(2 marks)

<Answer>

5. Navneeth, a sole proprietor, maintains a three column cash book to record his business transactions. Consider the following data pertaining to his business for the month of March, 2008:

Particulars	Rs.
Cheque received from a customer (after allowing a discount of Rs.2,500)	50,000
Paid the supplier by cheque (discount allowed by the supplier: Rs.10,000)	1,00,000
Received a cheque from Daulat Ram, a customer (after allowing a discount	

of 10% on the balance outstanding)	14,850
Paid Bharani and Co. in full settlement of their dues of Rs.28,500	26,250
Received from Rama & Bros. in full and final settlement (against an amount of Rs.38,900)	36,200

The total amount of discount recorded on the debit side of the three column cash book for the month of March, 2008 was

(a) Rs. 5,200
(b) Rs. 4,350
(c) Rs. 6,850
(d) Rs.12,250
(e) Rs.18,100.

(2 marks)
<Answer>

6. The accountant of M/s. Abhay Enterprises reported a net profit of Rs.5,90,000 for the year 2007-08. Subsequently, the following errors and omissions were noticed:

- The company had invested Rs.1,00,000 in 13% Debentures and the entire interest for the year 2007-08 was not accounted for.
- Salary to manager was still outstanding for the month of March 2008 and was not taken while preparing profit and loss account. The manager draws an annual salary of Rs.18,000.
- Ms. Sumana returned goods worth Rs.29,000 which were not recorded in the books of account. However, the closing stock includes the returned goods.

The correct net profit of M/s. Abhay Enterprises for the year 2007-08 was

(a) Rs.5,72,500
(b) Rs.6,01,500
(c) Rs.5,90,000
(d) Rs.5,46,500
(e) Rs.5,56,000.

(2 marks)
<Answer>

7. Which of the following is an 'Intangible Asset'?

(a) Installation charges of machinery
(b) Preliminary expenses
(c) Rent paid in advance
(d) Patents
(e) Income accrued but not received.

(1 mark)
<Answer>

8. The amount earmarked for distribution to the shareholders is known as

(a) Profit after tax
(b) Retained earnings
(c) Dividends
(d) Operating profit
(e) Profit before tax.

(1 mark)
<Answer>

9. The balance sheet of a business concern gives information regarding the

(a) Results of operations of the business concern for a particular period
(b) Financial position of the business concern during a particular period
(c) Profit earning capacity of the business concern for a particular period

(d) Financial position of the business concern as on a particular date

(e) Operating efficiency of the business concern as on a particular date.

(1 mark)

<Answer>

10. If the opening inventory of a business is undercast, it will

(a) Increase gross profit and decrease net profit

(b) Decrease gross profit as well as net profit

(c) Decrease gross profit and increase net profit

(d) Increase gross profit as well as net profit

(e) Decrease value of assets.

(1 mark)

<Answer>

11. Consider the following Balance Sheet of Red Ltd., as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Share capital	3,50,000	Plant and machinery	3,90,000
Capital reserve	85,000	Non-trading investments	1,40,000
General reserve	1,50,000	Current assets	90,000
Sundry creditors	40,000	Preliminary expenses	5,000
Total	6,25,000	Total	6,25,000

The market values of assets were as under:

Plant and machinery – Rs.4,75,000

Non-trading investments – Rs.1,25,000

Current assets include Rs.5,000 due from Sarita who has become insolvent and nothing can be recovered from her estate.

Profit earned during year was Rs.90,000.

The average capital employed for calculation of goodwill was

(a) Rs.5,20,000

(b) Rs.4,75,000

(c) Rs.5,80,000

(d) Rs.5,25,000

(e) Rs.5,85,000.

(2 marks)

<Answer>

12. The following information is extracted from the books of L.V. Ltd., for the year 2007-08:

Particulars	Rs.
Purchases	4,30,000
Sales	5,60,000
Opening stock	40,000
Closing stock	57,000
Factory insurance paid	6,000

Purchase invoices aggregating Rs.36,000 were omitted from purchase day book. Sales include Rs.10,000 for goods sent out to M/s. Das & Co., on sale or approval basis at a profit margin of 20% and these goods remained unsold at the end of the year. The gross profit of the company for the year ended March 31, 2008 was

(a) Rs. 95,000

(b) Rs.1,03,000

(c) Rs.1,05,000

(d) Rs.1,09,000

(e) Rs.1,23,000.

(2 marks)

13. The directors of Taurus Ltd., have proposed a dividend of 25% for the year 2007-08. As on the date of declaration of dividend, the capital structure of the company was as under: <Answer>

Particulars	Rs.
Authorized capital	10,00,000
Issued and called up capital	8,00,000
Paid-up capital	7,50,000

If the net profit for the year 2007-08 was Rs.1,60,000, the minimum amount of profits required to be transferred to reserves was

(a) Rs.2,50,000
(b) Rs.2,00,000
(c) Rs.1,87,500
(d) Rs. 40,000
(e) Rs. 16,000.

(2 marks)

14. The amount paid or payable to acquire a benefit is called <Answer>

(a) Historical cost
(b) Current cost
(c) Realizable value
(d) Present value
(e) Future value.

(1 mark)

15. The following figures were drawn from the books of a trader: <Answer>

Particulars	Rs.
Opening capital	2,00,000
Additional capital	50,000
Closing capital	4,00,000
Drawings during the year	1,00,000
Interest on opening capital	5%
Interest on drawings	6%

Net profit earned during the period was

(a) Rs.2,50,000
(b) Rs.1,50,000
(c) Rs.2,46,000
(d) Rs.2,56,000
(e) Rs.2,66,000.

(2 marks)

16. Silica Ltd. has furnished the following information for the year ended March 31, 2008: <Answer>

Particulars	Rs.
Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000
Calls-in-arrear	10,000
4% Debentures (repayable after 10 years)	5,00,000
Profit and loss account as on April 01, 2007(Credit balance)	67,000

Preliminary expenses written-off during the year	5,000
Debenture redemption reserve is to be created out of profits during the year	50,000
Net profit for the year ended March 31, 2008	1,90,000

The Board of directors declared dividend at the rate of 10% on paid-up capital on March 31, 2008.

The amount of profit (after appropriations) carried forward to the balance sheet was

(a) Rs.7,000
(b) Rs.8,000
(c) Rs.3,000
(d) Rs.9,000
(e) Rs.6,000.

(2 marks)
<Answer>

17. Naresh Ltd., has furnished the following information:

Particulars	Rs.
Depreciation allowable	9,00,000
Actual expenditure incurred on repairs not debited to profit and loss a/c	44,000
Depreciation provided in the books	11,20,000
Provision for repairs of machinery during the year	70,000
Net profit before provision for income tax and managerial remuneration, but after depreciation and provision for repairs	30,00,000
Managerial remuneration on profits	11%

The amount of managerial remuneration was

(a) Rs.3,57,060
(b) Rs.3,30,000
(c) Rs.3,54,200
(d) Rs.3,46,500
(e) Rs.3,32,860.

(2 marks)
<Answer>

18. Slate Ltd., has furnished the following information for the year ended March 31, 2008:

Particulars	Rs.
Stock as on April 01, 2007	80,000
Purchases during the year	1,60,000
Sales during the year	2,00,000

Goods worth Rs.30,000 were destroyed due to fire, against which the insurance company had admitted a claim of Rs.20,000. The company usually sells goods at cost plus 33⅓%. The value of closing stock as on March 31, 2008 was

(a) Rs.10,000
(b) Rs.30,000
(c) Rs.50,000
(d) Rs.45,000
(e) Rs.60,000.

(2 marks)
<Answer>

19. Agreement of the trial balance

(a) Indicates that books of accounts are correct and free from errors
(b) Indicates that all entries are correctly posted into the ledger
(c) Indicates arithmetical accuracy of the accounting transactions of the business
(d) Is a conclusive proof of accuracy of the accounting records of the business
(e) Indicates that accounts are true and fair.

(1 mark)

<Answer>

20. Libra Company has provided the following data:

Particulars	March 01, 2008 (Rs.)	March 31, 2008 (Rs.)
Cash & bank balance	60,000	?
Sundry debtors	50,000	40,000
Sundry creditors	70,000	80,000

During the month of March, 2008 the sales were Rs.3,60,000 and all the sales were on credit. The cash and credit purchases during the month were Rs.80,000 and Rs.2,00,000 respectively. Expenses paid during the month amounted to Rs.70,000.

The cash and bank balance of Libra Company as on March 31, 2008 was

(a) Rs.50,000
(b) Rs.90,000
(c) Rs.70,000
(d) Rs.80,000
(e) Rs.60,000.

(2 marks)

<Answer>

21. In the books of John & Co., opening entry for the following accounts was passed on April 01, 2008:

Particulars	Rs.
Cash on hand	330
Cash at bank	6,050
Bills payable	3,300
Furniture & fittings	6,600
Sundry creditors	11,400
Sundry debtors	14,520
Stock in trade	12,200
Capital	25,000

The total liabilities of John & Co., were

(a) Rs.27,500
(b) Rs.39,700
(c) Rs.28,320
(d) Rs.51,900
(e)Rs.25,000.

(2 marks)

<Answer>

22. According to cash book of Mr. Ananth, there was a favourable balance of Rs.1,050 in his bank account. On scrutiny of the cash book, the following errors and omissions were revealed:

- Discount of Rs.100 received from suppliers has been wrongly entered in the credit side of bank column of the cashbook.

- A cheque issued for Rs.1,230 has been entered in the cash book as Rs.1,320.
- A cheque for Rs.2,200 has been wrongly debited by bank to Mr. Ananth's account.

The balance as per bank statement should be

(a) Rs.3,090 (overdraft)
(b) Rs. 960 (favourable)
(c) Rs. 960 (overdraft)
(d) Rs.1,240 (favourable)
(e) Rs.3,090 (overdraft).

(2 marks)

<Answer>

23. The amount of owners' equity in a business is affected by

(a) The percentage of total assets held in cash
(b) The purchase of assets
(c) The profitability of the business
(d) Discharging liabilities
(e) Borrowing long term loans.

(1 mark)

<Answer>

24. Which of the following statements is **false** regarding preparation of accounts?

(a) If the debit side total is more than the credit side total, the difference is placed in the credit side as 'balance c/d' and is classified as debit balance
(b) The process of transferring entries from the journal to the ledger is called journalizing
(c) Balancing of an account means to make the total of amounts column appearing on the debit and the credit side equal to each other
(d) If the credit side total is more than the debit side total, the difference is placed in the debit side as 'balance c/d' and is classified as credit balance
(e) The balances in all real, personal and nominal accounts are transferred to the trial balance.

(1 mark)

<Answer>

25. Wren Ltd., has provided the following data for the year 2007-08:

Particulars	Rs.
Provision for doubtful debts as on April 1, 2007	6,000
Sundry debtors as on March 31, 2008	2,00,000
Bad debts to be written off	12,000

If a provision equal to 5% on the debtors is to be maintained, the total charge against profit and loss account for the year ended March 31, 2008 was

(a) Rs. 3,400
(b) Rs.22,000
(c) Rs.18,000
(d) Rs.16,000
(e) Rs.15,400.

(2 marks)

<Answer>

26. Which of the following statements is **true**?

(a) Bank account is a personal account
(b) Stock of stationery account is a nominal account

(c) Returns inward account is a personal account
(d) Outstanding rent account is a nominal account
(e) Capital account is a real account.

(1 mark)
<Answer>

27. Optimum Ltd., has furnished the following information:

- Average capital employed in the business is Rs.18,00,000.
- Rate of interest expected from capital having regard to the risk involved is 10%.
- Net trading profits of the company for the past three years were Rs.3,22,800, Rs.2,72,100 and Rs.3,37,500.
- Fair remuneration to the new directors for their services is Rs.36,000 per annum.

The value of goodwill on the basis of 3 years' purchase of super profits calculated on the basis of simple average of past 3 years' profits is

(a)Rs.3,92,400
(b)Rs.1,30,800
(c)Rs.2,84,400
(d)Rs.2,74,800
(e)Rs.3,10,800.

(2 marks)
<Answer>

28. The profits after tax of Hima Ltd., for the last three years were:

Year	Rs.
2005-06	2,15,000
2006-07	1,70,000
2007-08	2,00,000

Additional information:

- In the year 2005-06, a loss of Rs.20,000 due to a fire accident was charged against profits for that year.
- Excess depreciation of Rs.10,000 was provided in the year 2006-07.

Assuming the tax rate was 50%, the future maintainable profit after tax, based on simple average of last three years' profits was

(a) Rs.2,00,000
(b) Rs.1,95,000
(c) Rs.4,00,000
(d) Rs.3,90,000
(e) Rs.1,96,667.

(2 marks)
<Answer>

29. Which of the following statements is **false** with respect to goodwill?

(a) Goodwill though caused by factors which cannot be easily and accurately quantified, must be assigned a value
(b) It is the present value of a firm's anticipated excess earnings
(c) It is the extra saleable value attached to a prosperous business beyond the intrinsic value of the net assets
(d) It is an identifiable intangible asset
(e) It is like any other asset, a store of prospective revenue.

(1 mark)
<Answer>

30. Which of the following items is **not** shown in the Profit and loss account?

(a) Commission received

(b) Carriage on sales
(c) Carriage inward
(d) Salaries
(e) Rent and rates.

(1 mark)
<Answer>

31. On February 29, 2008 the cash balance of Aditya Ltd., is Rs.1,56,500. The cash sales and other cash receipts during the month of March 2008 aggregated to Rs.2,19,000 and Rs.2,50,000 respectively. If the amount of cash balance as on March 31, 2008 was Rs.1,25,500, the cash payments made during the month of March 2008 were

(a) Rs.4,69,000
(b) Rs.6,25,500
(c) Rs.5,00,000
(d) Rs.4,06,500
(e) Rs.3,75,500.

(2 marks)
<Answer>

32. The annual amount of depreciation charged on fixed assets keeps on declining under

(a) Straight-line method
(b) Written down value method
(c) Revaluation method
(d) Fixed installment method
(e) Units-of-production method.

(1 mark)
<Answer>

33. Which of the following is **not** considered as revenue for a firm?

(a) Goods sold on credit
(b) Cash received from debtors
(c) Interest received on investment
(d) Royalty received
(e) Dividend received on shares.

(1 mark)
<Answer>

34. A machinery costing Rs.25,000 is sold after 2 years for Rs.20,000 and the depreciation rate is 15% per annum on diminishing balance method. The profit/loss from the sale of machine is

(a) Rs.1,250 (loss)
(b) Rs.2,500 (profit)
(c) Rs.2,500 (loss)
(d) Rs.1,938 (profit)
(e) Rs.1,938 (loss).

(2 marks)
<Answer>

35. Which of the following statements is **true**?

(a) Cash book may be defined as the record of transactions concerning cash receipts and payments
(b) Purchase book is used to record both cash and credit purchase of goods
(c) The ledger is the book of original entry
(d) Sales book is used for recording both cash and credit sale of goods
(e) Purchase return book is used for recording the return of goods purchased from suppliers against cash.

(1 mark)
<Answer>

36. Which of the following is **not** classified as inventory in the financial statements?

(a) Finished goods
(b) Work-in-process
(c) Stores and spares
(d) Raw materials and components
(e) Advance payment made to suppliers for raw materials.

(1 mark)
<Answer>

37. The term "Imprest System" is used in relation to

(a) Purchases book
(b) Sales book
(c) Petty cash book
(d) Cash book
(e) Returns inward book.

(1 mark)
<Answer>

38. Tripti Ltd., follows perpetual inventory system. On March 31 of every year, the company undertakes physical verification of stock. On March 31, 2008, the value of stock as per the stock records differed from the value as per physical verification. On scrutiny, the following differences were noticed:

- Stock register was overcast by Rs.6,000.
- Goods purchased for Rs.10,000 were received and included in the physical stock but no entry was made in the books.
- Goods costing Rs.30,000 were sold and entered in the books but the stock is yet to be delivered.
- Goods worth Rs.5,000 returned to the suppliers were omitted to be recorded.

On March 31, 2008, if the book value of stock is Rs.1,50,000, the value of the stock as per physical verification was

(a) Rs.1,11,000
(b) Rs.1,89,000
(c) Rs.1,79,000
(d) Rs.1,59,000
(e) Rs.1,19,000.

(2 marks)
<Answer>

39. The weighted average cost of goods held in inventory is recalculated

(a) On periodic basis
(b) Every time a fresh purchase is made
(c) On yearly basis
(d) Every time material is issued for consumption or sale
(e) After prefixed time intervals.

(1 mark)
<Answer>

40. The provision for discount on debtors is calculated on the amount of debtors

(a) Before deducting the provision for doubtful debts
(b) Left after deducting only the provision for doubtful debts
(c) Before deducting the actual bad debts written-off
(d) After deducting only the actual bad debts written-off
(e) After deducting the actual bad debts written-off and the provision for doubtful debts.

(1 mark)
<Answer>

41. Depreciation on fixed assets is to be provided on the basis of

(a) Historical cost of the asset
(b) Market price of the asset
(c) Replacement cost of the asset
(d) Realizable value of the asset
(e) Historical cost or market price, whichever is lower.

(1 mark)
<Answer>

42. Which of the following statements is **false** in respect of the useful life of a depreciable asset?

(a) The useful life of a depreciable asset is shorter than its physical life
(b) The useful life of a depreciable asset can be reduced by technological changes also
(c) The useful life of a depreciable asset is not dependant upon the number of shifts worked
(d) The useful life of a depreciable asset is dependant upon repair and maintenance policy of organization
(e) The useful life of a depreciable asset can be predetermined by legal obligations.

(1 mark)
<Answer>

43. The trial balance of a firm shows sundry debtors at Rs.1,25,000 and old provision for doubtful debts at Rs.5,250. If the firm wants to maintain the provision for doubtful debts @ 5% on sundry debtors and create a provision for discount on debtors @ 2% on debtors, the amount of debtors to be shown in the balance sheet is

(a) Rs.1,21,625
(b) Rs.1,17,375
(c) Rs.1,16,375
(d) Rs.1,16,250
(e) Rs.1,21,500.

(2 marks)
<Answer>

44. Which of the following will appear in the Profit and loss appropriation account of a company?

(a) Provision for taxation
(b) Provision for doubtful debts
(c) Director's remuneration
(d) Interest on debentures
(e) Proposed dividends.

(1 mark)
<Answer>

45. As per Companies Act, calls-in-arrears are to be

(a) Debited to Premium on Issue of Shares a/c
(b) Deducted from the called-up capital on the liability side of Balance Sheet
(c) Debited to the Capital Reserve a/c
(d) Shown as a Deferred Expenditure
(e) Shown as note to the Balance Sheet.

(1 mark)
<Answer>

46. Journal entry for receiving interest in cash from Prashant against the loan given to him is

(a) Interest on loan account Dr.
  To Prashant account
(b) Prashant account Dr.
  To Interest account
(c) Cash account Dr.
  To Prashant account

(d) Cash account Dr.
To Interest on loan account
(e) Cash account Dr.
To Loan account.

(1 mark)
<Answer>

47. Diana Ltd., has issued 10%, 10,000 Preference shares of Rs.100 each fully paid and 1,30,000 equity shares of Rs.10 each fully paid. The net profit for the year 2007-08 is Rs.10,84,000 and the balance brought forward from the previous year amounted to Rs.1,52,800.

- Before making any appropriations the company wanted to provide Rs.4,38,000 for taxation of the previous year.
- The company declared an equity dividend of 10% and it has decided that an amount equal to 10% of equity dividend shall be set aside for bonus to staff.

The total amount debited to Profit and Loss appropriation account on account of the above appropriations was

(a) Rs.2,30,000
(b) Rs.2,43,000
(c) Rs.6,68,000
(d) Rs.6,81,000
(e) Rs.5,68,000.

(2 marks)
<Answer>

48. After declaring interim dividend the company may also declare another dividend which is termed as

(a) Unclaimed dividend
(b) Proposed dividend
(c) Bonus issue
(d) Final dividend
(e) Unpaid dividend.

(1 mark)
<Answer>

49. Dividends are usually paid as a percentage of

(a) Authorized share capital
(b) Net profit
(c) Paid-up capital
(d) Called-up capital
(e) Called-up share capital plus calls-in-advance less calls-in-arrears.

(1 mark)
<Answer>

50. The value of the goodwill, according to the simple profit method, is

(a) The product of current years profit and number of years of purchase
(b) The product of last year’s profit and the number of years of purchase
(c) The product of average profit of the given years and number of years of purchase
(d) The expected average profit for future years
(e) The product of average profit of last year, current year and coming year and number of years of purchase.

(1 mark)
<Answer>

51. Which of the following is **not** an item under the head Current Assets, Loans and Advances as per Part 1 of Schedule VI of the Companies Act, 1956?

(a) Interest accrued on investments

(b) Bills of exchange
(c) Balances with customs
(d) Development expenditure not adjusted
(e) Balance with port trust.

(1 mark)

<Answer>

52. The annual financial statements should be approved by the _______ before being signed by the auditors.

(a) Board of directors
(b) Registrar of companies
(c) Shareholders
(d) Audit Committee
(e) Lending Institutions.

(1 mark)

<Answer>

53. An adjusting entry is passed to recognize interest expense incurred but not yet paid. Such interest expense incurred but not yet paid is a

(a) Current asset
(b) Miscellaneous expenditure
(c) Deferred expense
(d) Provisions
(e) Current liability.

(1 mark)

<Answer>

54. Consider the following Balance Sheet of Kamal Enterprises as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Capital	5,00,000	Land and building	2,50,000
Long term loan	1,50,000	Machinery	3,00,000
Creditors	90,000	Fictitious assets	60,000
Bank overdraft	35,000	Debtors	95,000
		Stock	60,000
		Cash	10,000
Total	7,75,000	Total	7,75,000

The profit of the year 2007-08 was Rs.60,000 and has accrued evenly throughout the year. The rate of return in similar business is 12%. The normal profit for Kamal Enterprises should be

(a) Rs.56,400
(b) Rs.49,200
(c) Rs.67,200
(d) Rs.60,000
(e) Rs.52,800.

(2 marks)

<Answer>

55. Which of the following accounts of a company will never show a debit balance?

(a) Bank account
(b) Cash account
(c) Share capital account
(d) Interest account
(e) Rent account.

(1 mark)

56. When provision for tax for a particular year is in excess of the income tax assessed for the same year, the surplus is shown on <Answer>

(a) The debit side of the profit and loss account
(b) The debit side of the profit and loss appropriation account
(c) The credit side of the profit and loss appropriation account
(d) The credit side of the profit and loss account
(e) The liabilities side of the balance sheet under provisions.

(1 mark)

57. Which of the following methods is generally followed for amortization of intangible assets? <Answer>

(a) Straight-line method
(b) Written down value method
(c) Sum of the years' digits method
(d) Annuity method
(e) Units-of-production method.

(1 mark)

58. To conduct special audit of a company, a Special Auditor is appointed by the <Answer>

(a) Board of directors of the company
(b) Members of the company
(c) Central Government
(d) Statutory auditors
(e) Income Tax authorities.

(1 mark)

59. Sujana Industries depreciates its machinery at 10% p.a. on straight-line basis. On April 01, 2007 the balance in the machinery account of the firm was Rs.8,50,000 (original cost Rs.12,00,000). On July 01, 2007 a new machine was purchased for Rs.25,000. On December 31, 2007 an old machine having a book value of Rs.40,000 as on April 01, 2007 (original cost Rs.60,000) was sold for Rs.30,000. The balance shown in the machinery account of the business as on March 31, 2008 was <Answer>

(a) Rs.7,19,125
(b) Rs.7,91,500
(c) Rs.7,92,125
(d) Rs.7,18,500
(e) Rs.7,21,125.

(2 marks)

60. Saroj Ltd., purchased a machinery on April 1, 2004 for Rs.1,50,000. It was estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. If the company follows sum-of-the-years' digits method of depreciation, the amount of depreciation charged during the year 2007-08 was <Answer>

(a) Rs.50,000
(b) Rs.40,000
(c) Rs.30,000
(d) Rs.20,000
(e) Rs.10,000.

(2 marks)

61. Lamba, who is yet to prepare the final accounts found that goods sold on credit to Ramanlal for Rs.3,500 were entered in the sales book as Rs.3,050. Ramanlal's account was credited with Rs.3,050 in the ledger. The entry required to rectify the above error is <Answer>

			Rs.	Rs.
(a)	Sales account	Dr.	3,500	
	To Ramanlal account			450
	To Suspense account			3,050
(b)	Sales account	Dr.	3,050	
	Purchase account	Dr.	3,500	
	To Suspense account			6,550
(c)	Ramanlal account	Dr.	6,550	
	To Sales account			450
	To Suspense account			6,100
(d)	Profit and loss adjustment account	Dr.	6,550	
	To Ramanlal account			450
	To Suspense account			6,100
(e)	Suspense account	Dr.	6,550	
	To Ramanlal Account			6,550.

(2 marks)

<Answer>

62. Making provision for bad and doubtful debts in anticipation of actual bad debts is on the basis of

(a) Convention of disclosure
(b) Convention of consistency
(c) Convention of conservatism
(d) Convention of accounting period
(e) Convention of realization.

(1 mark)

<Answer>

63. Which of the following is the correct response to indicate the impact on asset, capital and total liabilities of a firm on account of new capital introduced?

	Assets	Owner's equity	Total Liabilities
(a)	Increases	Increases	Decreases
(b)	Decreases	Increases	No effect
(c)	Increases	Increases	Increases
(d)	No effect	Increases	Decreases
(e)	Decreases	Increases	Decreases.

(1 mark)

<Answer>

64. Consider the following data pertaining to Aditya Ltd., with regard to its sales for the month of March 2008:

Particulars	Rs.
Cash sales (Gross)	2,50,000
Credit sales	1,00,000

If a discount of 10% on selling price is allowed on all cash sales, sales for the month of March 2008, was

(a) Rs.2,25,000
(b) Rs.2,50,000
(c) Rs.3,15,000
(d) Rs.3,25,000
(e) Rs.3,50,000.

(2 marks)

65. Purchase of fixed assets on credit is originally recorded in <Answer>

(a) Purchases book
(b) Ledger
(c) Cash book
(d) Journal proper
(e) Bank book.

(1 mark)

66. Bad debts account is a <Answer>

(a) Real tangible account
(b) Real intangible account
(c) Personal account
(d) Representative personal account
(e) Nominal account.

(1 mark)

67. The following are the details pertaining to the operations of Deepak Ltd.: <Answer>

Particulars	March 31, 2006 (Rs.)	March 31, 2007 (Rs.)	March 31, 2008 (Rs.)
Sales	5,00,000	6,50,000	7,80,000
Other expenses	2,60,000	3,10,000	4,50,000
Interest on debentures	48,000	48,000	48,000

Assuming the tax rate of 40%, the value of goodwill on the basis of 4 years' purchase of average post-tax profits was

(a) Rs. 6,12,800
(b) Rs. 4,59,600
(c) Rs. 2,55,330
(d) Rs.10,21,320
(e) Rs. 3,06,400.

(2 marks)

68. Swedish Ltd., depreciates machinery under fixed installment method at 20% on cost. It purchased a second hand machine by paying Rs.5,00,000 on April 1, 2006 and spent immediately Rs.60,000 and Rs.40,000 on its repairs and installation respectively. The closing balance in Machinery account on March 31, 2008 was <Answer>

(a) Rs.3,00,000
(b) Rs.6,00,000
(c) Rs.3,60,000
(d) Rs.4,80,000
(e) Rs.3,34,000.

(2 marks)

69. Consider the following data pertaining to M/s. Navarang Enterprises: <Answer>

- Original cost of furniture Rs.5,000.
- Rate of depreciation under written down value method 20%.
- Residual value of furniture at the end of useful life Rs.2,048.

The estimated useful life of the furniture is

(a) 3 years

(b) 4 years
(c) 5 years
(d) 6 years
(e) 7 years.

(2 marks)

<Answer>

70. Growth Inc. uses a periodic inventory system. The purchases of a particular product for the month of March 31, 2008 were as given below:

Date	Particulars	Units	Rate (Rs.)	Amount (Rs.)
01.03.2008	Opening Inventory	500	5	2,500
08.03.2008	Purchases	500	10	5,000
15.03.2008	Purchases	1,000	8	8,000
25.03.2008	Purchases	500	5	2,500

The closing inventory as on March 31, 2008 consisted of 1,000 units. If the inventory is valued under Last-In-First Out (LIFO) method, the cost of goods sold during the year was

(a) Rs. 7,500
(b) Rs. 8,000
(c) Rs.10,000
(d) Rs.10,500
(e) Rs.12,500.

(2 marks)

END OF QUESTION PAPER

Suggested Answers
Financial Accounting (CFA510) : April 2008

Section A : Basic Concepts

	ANSWER	REASON	
1.	c	The system of recording transactions based on duality concept is called double entry system.	< TOP >
2.	e	Credit balance of bank column of cash book represents bank overdraft and is a liability. Credit balance of bank pass book, Debit balance of bank column of cash book and Debit balance of cash column of cash book represents favorable balance. The debit balance of discount column of cash book represents an expense. Hence, option E is correct answer.	< TOP >
3.	c	The discount entered on the receipt side of triple column cash book indicates the discount allowed and it is posted to the debit side of discount allowed account in the ledger. Thus, option C is the correct answer.	< TOP >
4.	c	Cost of goods sold = Purchases + (opening stock – closing stock) = Purchases – (closing stock – opening stock) = Purchases – excess of closing stock over opening stock = Rs.1,90,000 – Rs.30,000 = Rs.1,60,000	< TOP >

Sales = Rs.1,60,000 / 80% = Rs.2,00,000

Gross profit = Rs.2,00,000 - Rs.1,60,000 = Rs.40,000.

5. c Discount recorded on debit side of cash book represents the discount allowed to the customers. < TOP >

		Rs.
=	Cheque received and allowed discount	2,500
+	Discount allowed to Rama & Bros Rs.38,900 – Rs.36,200)	2,700
+	Cheque received from Daulat Ram Discount allowed 10% of (Rs.14,850/0.9)	1,650
	Discount allowed to customers	6,850

Total amount of discount recorded on debit side of three column cash book is Rs.6,850.

6. a < TOP >

Particulars	Rs.
Profit as reported by the accountant	5,90,000
Add : Interest on investments	13,000
	6,03,000
Less : Manager's salary	1,500
Less : Sales returns	29,000
The correct net profit	5,72,500

7. d Intangible assets are those assets which do not have a physical existence and their real value depends on the earning capacity of the business concern. As per the above definition patents is an intangible asset. Installation charges of machinery is capital expenditure that is added to acquisition cost of machinery, Preliminary expenses are deferred expenditure and rent paid in advance and income accrued but not received appear under current assets in the Balance Sheet. < TOP >

8. c Dividends represent the amount earmarked to distribute to the shareholders. Hence option C is the answer. < TOP >

The amount of taxes is to be deducted from profit before tax and the amount to be transferred to reserves and other appropriations, if any, need to be made from profits after tax. Operating profit is the amount of profit other than non-operating surplus. Interest, taxes, other appropriations should be made to operating profit. Hence this is not the amount earmarked for distribution to shareholders.

9. d Balance sheet is prepared to know the financial position of the concern as on a particular date . Thus option D is correct answer. < TOP >

10. d If the opening inventory of a business was under cast it will increase the gross profit and net profit. The opening stock plus net purchases are the cost of goods sold for a given period and its understatement will result in increase in gross profit and ultimately increases net profit. < TOP >

11. b Capital employed of Red Ltd., as on March 31, 2008: < TOP >

Assets	Rs.
Plant and machinery	4,75,000
Current assets (Rs.90,000 – Rs.5,000)	85,000

	5,60,000
Less: Sundry creditors	40,000
Capital employed	5,20,000
Less: ½ of current year profits (Rs.90,000 x ½)	45,000
Average capital employed	4,75,000

12. b < TOP >

Dr. Trading Account for the year ending 31.03.2008 Cr.

Particulars	Amount (Rs)	Amount (Rs)	Particulars	Amount (Rs)	Amount (Rs)
To Opening Stock		40,000	By Sales	5,60,000 10,000	
To Purchases	4,30,000		Less: Sale on Approval		5,50,000
Add: Purchase invoice omitted	36,000	4,66,000	By Closing Stock	57,000	
			Add: cost of goods sent on sale or approval (Rs.10,000 – Rs.2,000)	8,000	
To Factory insurance		6,000			
To Gross Profit		1,03,000			65,000
		6,15,000			6,15,000

13. e < TOP >

Where the dividend proposed exceeds 20 percent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 10 percent of the current profits i.e. Rs.1,60,000 x 10% = Rs.16,000.

14. a < TOP >

- Historical cost refers to the amount paid or payable to acquire the asset or a benefit.
- The amount that needs to be paid if the asset is to be acquired currently is the current cost.
- The present discounted value of the future inflows that an item is expected to generate in the normal course of business is the present value
- Realizable value is the net amount collectible in the event of the asset's disposal.
- Any valuation cannot be done with a view to lose benefit.

15. c < TOP >

Particulars	Rs.	Rs.
Closing capital		4,00,000
Add: Drawings during the year	1,00,000	
Interest on drawings @ 6% on Rs.1,00,000	6,000	1,06,000
Total		5,06,000
Less: Additional capital	50,000	
Interest on opening capital @ 5% on Rs.2,00,000	10,000	
Opening capital	2,00,000	2,60,000
Profit earned during the period		2,46,000

16. b Profit and loss Appropriation Account of Silica Ltd. for the year ended March 31, 2008 < TOP >

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Transfer to Debenture redemption reserve	50,000	By Balance b/d	67,000
To Proposed dividend @10% (Rs.20,00,000 – Rs.10,000)	1,99,000	By Profit for the current year	1,90,000
To Profit carried to balance sheet	8,000		
	2,57,000		2,57,000

17. a

Calculation of net profit under section 349 of the Companies Act, 1956

Particulars	Rs.	Rs.
Net profit before provision for income tax and managerial remuneration but after depreciation & provision for repairs		30,00,000
Add :Depreciation provided	11,20,000	
Provision for repairs	70,000	11,90,000
		41,90,000
Less: Depreciation allowable under section 350	9,00,000	
Actual amount of repairs	44,000	9,44,000
Profit as per section 349		32,46,000

The amount of managerial remuneration is Rs.32,46,000 x 11% = Rs.3,57,060.

< TOP >

18. e

Dr. Trading a/c of Slate Ltd for the year ended March 31, 2008 Cr.

Particulars	Rs.	Particulars	Rs.
To Opening stock	80,000	By Sales	2,00,000
To Purchases	1,60,000	By Goods lost by fire	30,000
To Gross profit*	50,000	By Closing stock (Balancing figure)	60,000
	2,90,000		2,90,000

*Gross profit = on cost = on cost = on sales = Rs.2,00,000 × = Rs.50,000

< TOP >

19. c

The trial balance is prepared to ensure the arithmetical accuracy of the accounting transactions of a business. A trial balance in which the total of the debits equals the total of credits is not a conclusive proof of the accuracy of the accounts. Certain errors may not affect the agreement of a trial balance as the erroneous entries may not violate the dual aspect concept. It means that even if the trial balance agrees, steps should be taken to ensure that the records are free from the errors. The trial balance does not indicate that the accounts are true and fair.

< TOP >

20. b

Dr. Sundry Debtors Acount Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Cash (Balancing figure)	3,70,000
To Sales	3,60,000	By Balance c/d	40,000

< TOP >

	4,10,000		4,10,000

Dr. Sundry Creditors Acount Cr.

Particulars	Rs.	Particulars	Rs.
To Cash (balancing figure)	1,90,000	By Balance b/d	70,000
To Balance c/d	80,000	By Purchases	2,00,000
	2,70,000		2,70,000

Cash and Bank Balance

Particulars	Rs.	Rs.
Opening cash and bank balance		60,000
Add Cash received from sundry debtors		3,70,000
		4,30,000
Less Cash paid to sundry creditors	1,90,000	
Cash purchases	80,000	
Expenses paid	70,000	3,40,000
Closing cash and bank balance		90,000

21. b The opening entry in the books of John & Co. as on April 1, 2008 < TOP >

Particulars		Debit (Rs.)	Credit (Rs.)
Cash account	Dr.	330	
Bank account	Dr.	6,050	
Sundry debtors account	Dr.	14,520	
Furniture & fittings account	Dr.	6,600	
Stock in trade account	Dr.	12,200	
To Sundry creditors account			11,400
To Bills payable account			3,300
To Capital account			25,000
Total		39,700	39,700

Total liabilities = Sundry creditors + Bills payable + capital

= Rs.11,400 + Rs.3,300 + Rs.25,000 = Rs.39,700.

22. c Bank Reconciliation statement Mr. Ananth < TOP >

Particulars	Rs.	Rs.
Balance as per cash book		1,050
Add: Discount wrongly entered in bank column	100	
Excess amount of cheque credited to bank a/c	90	190
		1,240
Less: Cheque wrongly debited by bank to Mr. Ananth a/c		2,200

Overdraft as per bank statement		960

23. c The owners' equity is affected by a change in the profitability of the business, as profits will increase owners' equity and loss will decrease it. The composition of assets does not affect the owners' equity. Hence, the percentage of total assets held in cash does not affect the owners' equity. The purchase of assets, discharging liabilities and borrowing additional loans does not affect the owners' equity in a business. < TOP >

24. b The process of transferring entries from the journal to the ledger is called ledger posting and not journalizing. < TOP >

- Balancing of an account means to make the total of amounts column appearing on the debit and the credit side equal to each other.
- If the debit side total is more than the credit side total, the difference is placed in the credit side as 'balance c/d' and is classified as debit balance.
- Balancing of an account means to make the total of amounts column appearing on the debit and the credit side equal to each other.
- The balances in all real, personal and nominal accounts are transferred to the trial balance.

25. e < TOP >

Dr Provision for Bad & Doubtful Debts Cr.

Particulars	Rs.	Particulars	Rs.
To Bad Debts	12,000	By Balance b/d	6,000
To Balance c/d	9,400	By Profit & Loss A/c	15,400
5% of (2,00,000 – 12,000)		(balancing figure)	
	21,400		21,400

26. a Bank account is a personal account is true statement. < TOP >

- Stock of stationery is a real account, which indicates the value of stationery in stock.
- Returns inward account is a nominal account which indicates the sales returns and to be reflected in the trading account of a business.
- Outstanding rent account is a representative personal account and not nominal account.
- Capital account is a representative personal account, which indicates the funds owned by the owners, and it is not a real account.

27. c Trading profits for the last three years: < TOP >

Particulars	Rs.
Average Profit Rs.(3,22,800 + 2,72,100+3,37,500) ⁄ 3	3,10,800
Less : Remuneration to new directors	36,000
Average Maintainable Profits	2,74,800
Less : Normal Profit @ 10% on average capital employed	1,80,000
Super Profit	94,800
Goodwill at 3 years' purchase of super profits (94,800 × 3)	2,84,400

28. a < TOP >

	2005-06	2006-07	2007-08

Particulars	(Rs.)	(Rs.)	(Rs.)
Post-tax profits	2,15,000	1,70,000	2,00,000
Pre-tax profits	4,30,000	3,40,000	4,00,000
Add: Excessive depreciation	–	10,000	–
Abnormal loss	20,000	–	–
	4,50,000	3,50,000	4,00,000

Average pre-tax profits =

Average pre-tax profits = Rs.4,00,000

Less: Tax @50% Rs.2,00,000

Future maintainable profits Rs.2,00,000.

29. d Intangible assets are classified as either identifiable or unidentifiable. Goodwill (d), arising out of payment for reputation, brand name, location, loyalty etc. is an unidentifiable intangible asset. It is described as a momentum or push like the momentum of a body that continues its motion against a retarding force. It, though caused by factors which cannot be easily and accurately quantified it must be assigned a value. It is a payment for something which places the payer in the position being able to earn more than he would be able to do by his own unaided efforts. It is the difference between the value of a business as a whole and the aggregate of the fair value of its net assets. The basic characteristic of an asset is said to have productivity. Since the goodwill helps in extra earnings, it is said to be a store of prospective revenue. < TOP >

30. c Carriage inward is a direct expense to be shown in the trading account. Except this all the other items are shown in the profit and loss a/c. < TOP >

31. c Cash statement for the month of March, 2008 < TOP >

Particulars	Rs.	Rs.
Cash balance as on February 29, 2008		1,56,500
Add: Cash sales during the month of March, 2008	2,19,000	
Other cash receipts during the month of March, 2008	2,50,000	4,69,000
		6,25,500
Less: Cash balance as on March 31, 2008		1,25,500
Cash payments made during the month March, 2008		5,00,000

32. b The amount charged to depreciation goes on declining in written down value method (also known as declining balance method or reducing balance method). < TOP >

In straight line method or fixed installment method the amount of depreciation remains constant. The amount varies according to the actual production under the units-of-production method. Under revaluation method it changes according to the market value of the assets from time to time.

33. b Cash received from debtors is not a revenue because the revenue was recognized at the stage of sale of goods itself irrespective of whether the sale is for cash or on credit. All others are items of revenue for a firm. < TOP >

34. d First year depreciation @15% on Rs.25,000 = Rs.3,750.Book value at the end of 1st year = Rs.25,000 – Rs.3,750 = Rs.21,250. < TOP >

Depreciation for the 2nd year on book value of Rs.21,250 = Rs.3,188. Book value after providing depreciation at the end of 2nd year is Rs.21,250 – Rs.3,188 = Rs.18,062. Asset sold for Rs.20,000. Therefore profit on sale = Rs.20,000–18,062 = Rs.1,938.

35. a Cash book may be defined as the record of transactions concerning cash receipts and payments < TOP >

36. e Advance payment made to suppliers for materials is not classified as inventory. Other items mentioned in (a), (b), (c) and (d) are classified as inventory in the financial statements as they are the components of inventory. < TOP >

37. c The term imprest system" is used in relation to petty cash book. < TOP >

38. c Computation of Inventory < TOP >

Particulars	Rs.	Rs.
Book value of stock		1,50,000
Add: Purchases received but not yet accounted	10,000	
Goods sold yet to be delivered	30,000	40,000
		1,90,000
Less: Returns outward	5,000	
Amount overcast in stock register	6,000	11,000
Value of the stock as per physical verification		1,79,000

39. b The average cost of goods held in inventory is recalculated every time a fresh purchase is made and goods issued or sold out of inventory are priced at such average price till such time as the next lot is purchased. < TOP >

40. e The provision for discount on debtors is calculated on the amount of debtors after deducting the actual bad debts written-off and the provision for doubtful debt. < TOP >

41. a Depreciation is to be provided on the basis of historical cost of the asset. < TOP >

42. C The useful life of a depreciable asset is not dependant upon the number of shifts worked is false. < TOP >

43. c Calculation of the amount of debtors to be shown in the balance sheet: < TOP >

Particulars	Rs.
Sundry debtors	1,25,000
Less: New provision for doubtful debts (Rs.1,25,000 × 5%)	6,250
	1,18,750
Less: Provision for discount on debtors (Rs.1,18,750 × 2%)	2,375
Debtors to be shown in the balance sheet	1,16,375

44. e Proposed dividends will appear in the Profit and loss appropriation account of a company.
The other options provision for taxation, provision for doubtful debts, director's remuneration and Interest on debentures will appear in Profit and loss account of a company not in profit and loss appropriation account. < TOP >

45. b Calls-in-arrears are shown as a deduction from the amount of called up capital on the liability side of the Balance-Sheet. < TOP >

46. d The journal entry to record the receipt of interest on loan given to Prashant would be < TOP >

Cash account Dr.

To Interest on loan account

47. c Provision for taxation of the previous year = Rs.4,38,000 < TOP >

Dividend on 10% 10,000 Preference Shares of Rs.100 each = Rs.1,00,000

10% Dividend on 1,30,000 equity shares of Rs.10 each = Rs.1,30,000

The total amount debited to Profit and Loss appropriation account = Rs.6,68 ,000.

Amount equal to 10% of equity dividend shall be set aside = Rs.13,000 for bonus to staff. This is a charge on profit.

48. d After declaring interim dividend the company may also declare another dividend which is termed as final dividend. < TOP >

49. c Dividends are usually paid as a percentage of paid-up capital (called-up capital less calls-in-arrears) < TOP >

50. c The value of the goodwill, according to the simple profit method, is the product of average profit of the given years and number of years. < TOP >

51. d The item development expenditure not adjusted is an item of miscellaneous expenditure in balance sheet of a company. It is not categorized under current assets, loans and advances. < TOP >

52. a The annual financial statements should be approved by the Board of directors before being signed by the company and the auditors. < TOP >

53. e The adjusting entry would involve a debit to an expense account and a credit to a liability account. The expense is an accrued expense; it has been incurred and is being recognized as expense of relevant accounting year. < TOP >

54. B < TOP >

Particulars	Rs.	Rs.
Total assets		7,75,000
Less: Fictitious assets	60,000	
Long term loan	1,50,000	
Creditors	90,000	
Bank overdraft	35,000	3,35,000
Capital employed at the end		4,40,000
Less: ½ of the profit during the year 2006-2007		30,000
Average capital employed		4,10,000

Normal profit = Average capital employed ×Normal rate of return

= Rs.4,10,000 ×12% = Rs.49,200.

55. c Share capital account can never have a debit balance < TOP >

56. c When provision for tax for a particular year is in excess of the income tax assessed for the same year, the surplus is shown on the credit side of the profit and loss appropriation account. < TOP >

57. a Amortization of intangible assets signifies genmerally, the systematic writing down of the value of the intangible assets over its life. The method adopted is straight line method. The other alternatives written down value method, sum of the years' digits method, annuity method and units-of-production method are used for depreciating the value of tangible fixed assets. < TOP >

58. c Special Auditor is appointed to conduct special audit of a company by the Central Government. Board of directors of the company; The Members of the company; Statutory auditors and Income Tax authorities do not appoint a special auditor to conduct special audit of a company. Thus, alternative C is the correct answer. < TOP >

59. a < TOP >

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
April 01, 2007	To Balance b/d	8,50,000	Dec. 31, 2007	By Bank a/c (sale of	30,000

				old machine)	
July 01, 2007	To Bank a/c (new machine)	25,000	Dec. 31, 2007	By Depreciation a/c (WN – 2)	4,500
			Mar. 31, 2008	By Profit & loss a/c (WN – 2)	5,500
			March 31, 2008	By Deprecation a/c (WN – 1)	1,15,875
			March 31, 2008	By Balance c/d	7,19,125
		8,75,000			8,75,000

Working Notes:

1. Calculation of depreciation for year 2007-08	Rs.	2. Calculation of loss on sale of machinery	Rs.
Opening balance (original)	12,00,000	Book value on April 01, 2007	40,000
Less : Original cost of machine sold	60,000	Less : Depreciation @ 10% p.a. on Rs.60,000 for 9 months)	4,500
	11,40,000	Written down value on December 31, 2007 (Date of sale)	35,500
Depreciation @ 10% p.a. (old machine)	1,14,000	Less: Sales value	30,000
Depreciation for 9 months (new machine)	1,875	Loss	5,500
	1,15,875		

60. d Depreciation under the sum-of-the years-digits method for the year 2006-2007, being the fourth year

= = Rs.20,000

< TOP >

61. c The rectification entry is

Ramanlal account (Rs.3,500 + Rs.3,050)	Dr.	6,550	
To Sales account (Rs.3,500 - Rs.3,050)			450
To Suspense account			6,100

< TOP >

62. c Making provision for bad and doubtful debts in anticipation of actual bad debts is on the basis of the convention of conservatism (prudence) which implies early recognition of unfavorable events. The rule is recognize all losses and anticipate no gain.

< TOP >

63. c When capital is introduced capital increases, liabilities increases and since the fund introduced is utilized to acquire assets, asset also increases. < TOP >

64. d < TOP >

Particulars	Rs.
Cash Sales Gross	2,50,000
Less : Discount on cash bills 10% (10% of 2,50,000)	25,000
	2,25,000
Add : Credit sales	1,00,000
Sales for the month of October, 2007	3,25,000

65. d Purchase of fixed assets on credit is entered in journal proper and subsequently posted into the ledger. It is not recorded in purchases book as only purchase of goods on credit will be recorded in purchases book. In cash book, only cash and bank transactions will be recorded. As the fixed assets were purchased on credit, this transaction will not be recorded in the cash book. < TOP >

66. e Bad debts account is a normal account. It is the amount that a business recognizes as non recoverable and is treated as expense/loss like any other expense. < TOP >

67. a < TOP >

Particulars	March 31, 2006 Rs.	March 31, 2007 Rs.	March 31, 2008 Rs.
Sales	5,00,000	6,50,000	7,80,000
Less: Other expenses	2,60,000	3,10,000	4,50,000
Interest on debentures	48,000	48,000	48,000
Pre-tax profit	1,92,000	2,92,000	2,82,000
Less: tax @40%	76,800	1,16,800	1,12,800
Post-tax profits	1,15,200	1,75,200	1,69,200

Average post-tax profits = (Rs.1,15,200 + Rs.1,75,200 + Rs.1,69,200)/3 = Rs.1,53,200

Goodwill = Rs.1,53,200 × 4 = Rs.6,12,800

68. c < TOP >

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.06	To Bank a/c	5,00,00	31.03.07	By Depreciation *	1,20,000
01.04.06	To Bank a/c	40,000	31.03.07	By Balance c/d	4,80,000
01.04.06	To Bank a/c	60,000			
		6,00,000			6,00,000
01.04.07	To Balance b/d	4,80,000	31.03.08	By Depreciation *	1,20,000
			31.03.08	By Balance c/d	3,60,000
		4,80,000			4,80,000
01.04.08	To Balance b/d	3,60,000			

*Depreciation = 20% on cost = 20% of Rs.6,00,000 (Rs.5,00,000 + Rs.40,000 + Rs.60,000) = Rs.1,20,000.

The amount of depreciation remains same under fixed installment method (straight line method).

69. b Original cost of furniture 5,000 < TOP >

Less depreciation @20%

Year	Cost	Depreciation	WDV
1	5,000	1,000	4,000
2	4,000	800	3,200
3	3,200	640	2,560
4	2,560	512	2,048

70. d Cost of goods sold on LIFO: < TOP >

= Opening stock + Purchases – Closing stock

= Rs.2,500 + Rs.15,500 – Rs.7,500 = Rs.10,500.

Note: Closing stock as per LIFO:

= 500 × Rs.5 = Rs.2,500

= 500 × Rs.10 = Rs.5,000

= Rs.7,500

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